HOUSING MARKET OUTLOOK

London

Canada Mortgage and Housing Corporation
www.cmhc.ca

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New Home Market

Starts Will Remain Strong

In the London census metropolitan area (CMA), foundations will be laid for 3,000 new homes, a slight decrease of two per cent from last year. Housing demand continues to be sustained by low mortgage rates, growing employment and positive net migration. Near record MLS sales in the first quarter of 2006 bode well for new home construction to remain strong during the year.

Multiple family home construction has been robust in the past three years. Last year was the second best in a decade. The driving force behind this high level of starts is demand from empty nesters (age 55-64). Empty nesters account for ten per cent of the total population in the London CMA and the percentage is expected to increase steadily to close to fourteen per cent by 2020. Luxury rental apartment and townhouse projects targeting empty nesters will contribute to a ten per cent rise in multiple starts to 1,100 units in 2006.

Single-detached home starts will retreat 7.9 per cent to 1,900 homes in 2006. Interest rates are forecast to edge up. Meanwhile, house prices will increase at a faster pace than inflation and average wage growth.

Rising construction costs have fed into the New House Price Index (NHPI), which moved up at an average annual five per cent rate since 2003. The new single-detached average price is forecast to increase by five per cent in 2006 to $284,500 following a ten per cent rise last year.

The steady increase of single-detached new home prices along with the large gap between new home and existing home prices will drive first time buyers into the resale market. The supply of new homes priced under $175,000 continues to shrink. Single-detached homes in this price range represented 8.5 per cent of new singles completed and sold in 2005 compared to 35.4 per cent in 2001. Single family homes priced under $175,000 is expected to drop to 5.5 per cent of total sales.

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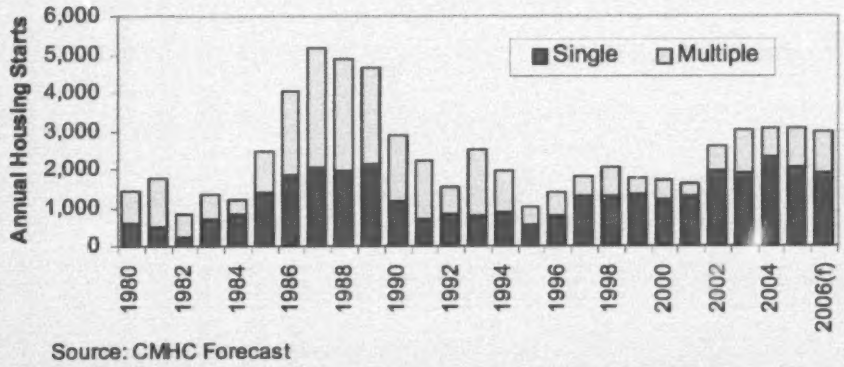
Housing Starts Will Decrease Slightly



Source: CMHC Forecast

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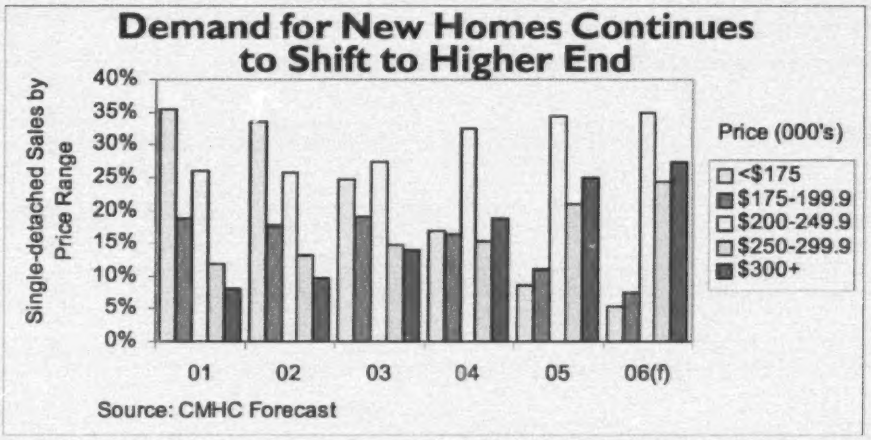
Instead, the new home market will be dominated by repeat home buyers. Buyers in this group have accumulated substantial home equity during the housing price run-up since 2001. Higher end homes have been increasing market share since then. This trend will be carried into 2006. New homes priced over $250,000 will make up 52 per cent of total new home sales in 2006, compared to 46 per cent in 2005. New homes sold for $300,000 and above will grow to 27.5 per cent from 25 per cent last year.



Resale Market

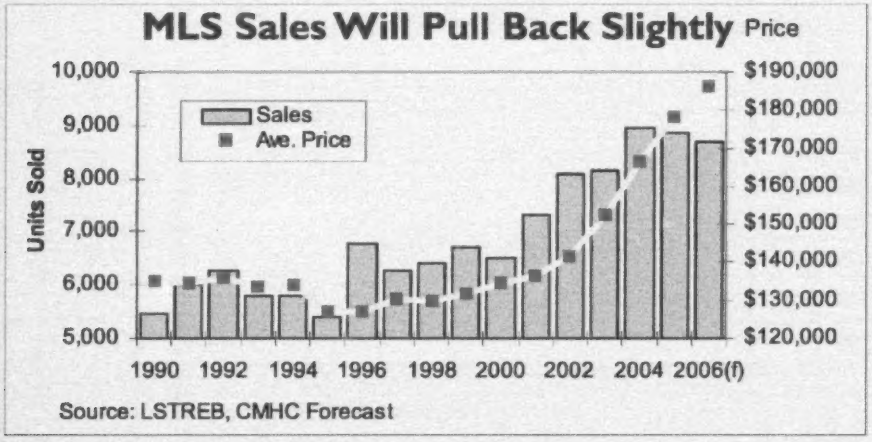
Robust Sales with More Supply

The strong first quarter pace will guide total sales in 2006 to be the third highest on record. Sales of 8,700 homes will be just two per cent down from the previous year's level.

Existing homes prices are low in the London CMA compared to the Ontario average. Relatively low interest rates will keep the monthly carrying costs of homeownership affordable in the London metro area. Furthermore, sustained job growth, wage increases, solid home price gain and surging net migration will continue to contribute to a buoyant resale market in 2006.

Rising prices in the resale market will attract more new listings. New listings in the London & St. Thomas area will grow by four per cent in 2006. Rising supply, coupled with slightly lower sales, will move the resale market towards a more balanced state, although the sales-to-new listings ratio will still remain above 60 per cent, indicating a seller's market

More choice for buyers will create an environment where homes stay longer on the market. The result will be an easing in the pace of price growth to 4.8 per cent from seven per cent in 2005. Nonetheless, price growth will still outpace inflation. The average MLS sales price is forecast to top $186,000 in 2006.



Rental Market

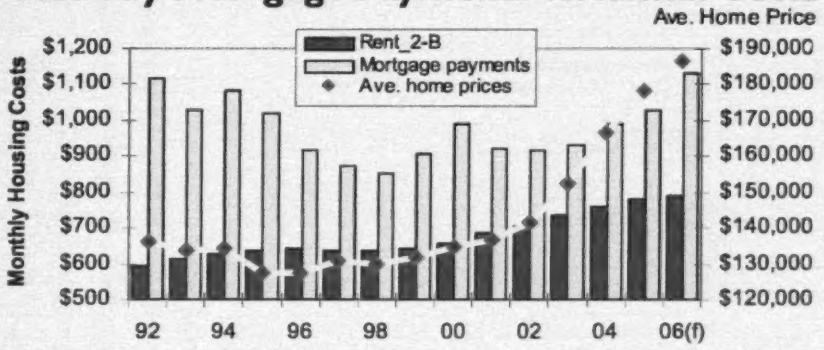
Vacancy Rate Uptrend Pauses

The rising relative cost of homeownership compared to renting will limit outflow of current tenants. The vacancy rate will decrease slightly to four per cent from 4.2 per cent in 2005.

Moderate increases in mortgage rates and relatively fast growth in existing home prices have resulted in monthly mortgage payments on an average priced home increasing faster than inflation since 2004. Forecast monthly mortgage payment on an average priced home at the expected mortgage rates in 2006 will rise by ten per cent compared to a two per cent increase in rents.

On the supply side, rental apartment completions are expected to be 523 units in 2006, slightly lower than the 538 units completed in 2005. This should further contribute to the slightly drop of vacancy rate. The rental market has been softening since 2004 when the vacancy rate moved above the historical average level of 3.6 per cent. Consequently rent increases have been close to the inflation rate ever since. In 2006, with the continuance of moderately high vacancy rate, average rents are forecast to increase marginally by two per cent.

Monthly Mortgage Payments vs. Rental Costs



Source: LSTREB, CMHC Forecast

Economic Trends

Employment Stays at High Level

London area job growth is forecast to be 1.2 per cent, which is below the past five year average annual growth rate of 1.5 per cent. This will translate into total employment of 246,000 in 2006.

The London CMA labour market experienced above average growth in 2004. Employment level stayed flat in 2005. Average weekly income has gone up steadily since 2000.

Educational services and business building and other support services sectors saw strong job growth in 2005. Public administration also contributed to the overall job growth. For 2006, service producing sectors such as health care, education, finance-insurance-real estate will be the source of job gains.

Construction employment will continue to decline. Building permits issued by the City of London in 2005 amounted to $619 million, down 4.3 per cent from the 2004 record level.

The confidence of consumers moved higher after a sharp drop in the latter half of 2005. The Consumer Attitudes Survey reported 52 per cent of Ontarians felt it was a good time to make a major purchase. The construction of a new Toyota plant in Woodstock as well as the expansion of London Labatt Breweries will help boost local consumer confidence in 2006.

Mortgage Rate Outlook

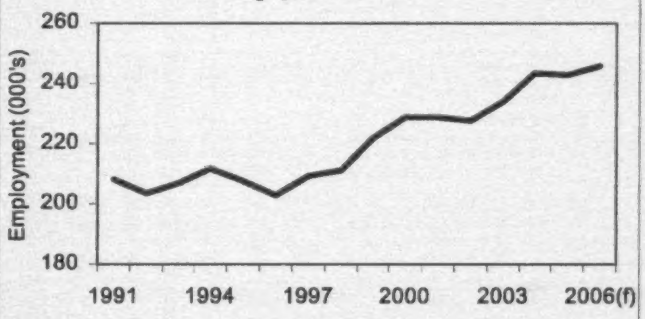
Mortgage rates will rise in 2006

Moderate inflation and a strong Canadian dollar vis-à-vis the U.S. dollar will help restrain the size and speed of Canadian interest and mortgage rate increases in 2006-07.

While still low by historical norms, mortgage rates are expected to rise gradually by 50-75 basis points in 2006. One, three and five-year posted mortgage rates are forecast to be in the 5.75-6.75, 6.00-6.75, and 6.25-7.25 per cent ranges respectively in 2006.

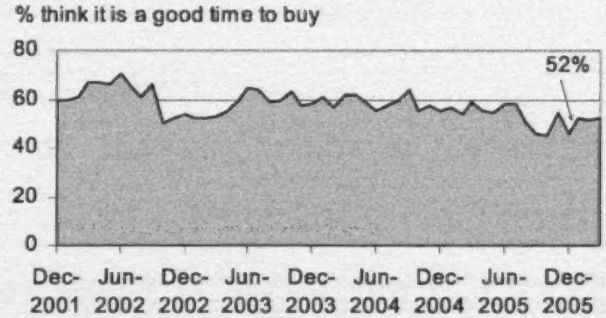
In 2007, these three mortgage rates are forecast to rise marginally and be within 25 basis points of their 2006 annual averages.

Steady Job Growth



Source: Statistics Canada, CMHC Forecast

Consumer Attitudes, Major Purchases



Source: Conference Board of Canada

FORECAST SUMMARY

London and area Forecast Completed April 2006

NEW HOME MARKET	2003	2004	2005	2006(f)	Change (%) 2005	2006(f)
London CMA (census metropolitan area)						
Starts						
1. Single-detached	1,893	2,336	2,063	1,900	-11.7%	-7.9%
2. Multi-family	1,134	742	1,004	1,105	35.3%	10.0%
3. Total Starts [1+2]	3,027	3,078	3,067	3,005	-0.4%	-2.0%
Multi-family by Type						
Semi-detached	22	26	44	50	69.2%	13.6%
Townhouse - Rental/Owner	39/236	75/228	58/252	68/232	2.3%	-3.2%
Apartment - Rental/Owner	837/0	333/80	650/0	560/195	57.4%	16.2%
Average Price (Single-detached Homes)						
Bungalow/Ranch	$213,526	$240,922	$273,619	$290,857	13.6%	6.3%
Two-storey	$241,709	$253,113	$267,633	$277,268	5.7%	3.6%
All Single-detached	$231,237	$246,948	$270,936	$284,483	9.7%	5.0%
New Housing price Index (1997 = 100)	115.0	120.4	126.3	130.6	4.9%	3.4%
RESALE MARKET						
London & St. Thomas Real Estate Board						
MLS Sales	8,153	8,953	8,873	8,696	-0.9%	-2.0%
MLS Average Price	$152,539	$166,464	$178,060	$186,375	7.0%	4.8%
MLS New Listings	12,181	13,555	13,732	14,280	1.3%	4.0%
Sales-to-Listings Ratio	67%	66%	65%	61%		
RENTAL MARKET						
Apartment Vacancy Rate	2.1%	3.7%	4.2%	4.0%		
Average Rent (2 bedroom)	$736	$758	$775	$791	2.2%	2.0%
ECONOMIC OVERVIEW						
Mortgage Rate (1 year term)	4.84	4.59	5.06	6.27		
Mortgage Rate (5 year term)	6.39	6.23	5.99	6.78		
Employed (000's)	234.4	243.6	243.1	246.0	-0.2%	1.2%
Employment Growth (000's)	7.0	9.2	-0.5	2.9		
Unemployment Rate (%) London/Ontario	6.8/7	5.9/6.8	6.6/6.6	6.6/6.6		

f=CMHC forecast, Consensus mortgage rate forecast April 2006.

Sources: Statistics Canada, London & St. Thomas Real Estate Board, CMHC

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